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# **Corporate Reporting and Disclosures in the emerging capital market of Kuwait: The Perceptions of Users and Preparers**

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## **Abstract**

The objective of this paper is to investigate the perceptions of users and preparers regarding financial disclosure practices in annual reports of Kuwaiti listed firms. To measure participants' views, a questionnaire survey was distributed in Kuwait between October and December 2012, to preparers (financial managers) and users (financial analysts) within Kuwaiti listed companies. The study compares between the perceptions of financial managers and financial analysts regarding to disclosing information in corporate annual reports as well as the main obstacles facing the disclosure process and what the problems restricting the use of companies' annual reports. The study also seeks to investigate whether there is a perceived need for improving the usefulness of Kuwaiti companies' annual reports for decision-making. The results, based on 137 responses, indicate that accounting practices in Kuwaiti firms are firmly rooted in a decision-usefulness tradition with management and the board of directors viewed as the key audience for reporting information. Indeed, the annual reports of Kuwaiti listed companies are perceived as the most important sources of information. On the whole both users and preparers shared similar concerns regarding the volume of information contained within annual reports, however, their views differed in terms of identifying potential solutions. The results of the study are likely to have implications for decision makers, the academic community and accounting standard setters.

**Keywords: Users' and Preparers' Perceptions; disclosure; Kuwait; Questionnaire, statistical analysis.**

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## **1. Introduction**

There are various channels through which companies can provide information on their operations to the public, including annual reports, websites, newspapers and analysts' meetings. Among these different channels of disclosure, the annual report is considered as one of the most important sources of firm-level information (Gray et al., 1996). In this context, Stanga (1976) suggests that "Published annual reports are extremely important sources of corporate information" (p. 42), while Marston and Shrives (1991) conclude that the annual report is the most comprehensive document available to the public and is therefore the "main disclosure vehicle" (p. 196) in practice. The usefulness of the corporate annual report and views of users and preparers regarding those annual reports have been subject of number of previous surveys (e.g. Chandra, 1974; Lee and Tweedie, 1975; Most and Chang, 1979; McNally et al. 1982; Wallace, 1988; Ho and Wong, 2003; Yaftian and Mirshekary, 2005; Aljifri et al. 2011). However the majority of previous studies focused on developed and developing Asian countries and there are only a handful studies that have looked at Perceptions of users in the state of Kuwait, these have looked only on perceptions of users (Naser et al. 2003).

This paper contributes to the literature regarding the disclosure in corporate annual report by reporting the results of a questionnaire survey sent to users (investment analysts) and preparers (finance directors) of Kuwaiti non-financial listed companies; this is highly novel in the disclosure literature in general, but allows for consistencies, differences and emerging trends in the view of the two groups to be identified. The purpose of this paper is to investigate perceptions of users and preparers regarding usefulness of corporate annual reports for decision making in a less-developed country such as Kuwait where both the business sector and the capital market have experienced remarkable growth over recent decades.

The remainder of the paper is structured as follows. Section 2 shed light on financial reporting environment in Kuwait. Literature review and hypothesis development are presented in Section 3. Section 4 outlines the method employed, including sampling and data collection procedures and questionnaire design. Results are presented in Section 5. Section 6 concludes.

## **2. Financial Reporting Environment in Kuwait**

Kuwait is a small Arab country located in the Middle East region and is a member of the Gulf Cooperation Council (GCC)<sup>1</sup> with democratic system of government. The economy of Kuwait is categorised as ‘developing’ in economic terms and the oil has is the nation’s dominant economic resource. Over recent decades, both the business sector and the capital market in Kuwait have experienced remarkable growth. Kuwait has the oldest Stock Exchange (KSE) in the GCC region and the second largest in the Arabic world, after Saudi Arabia in terms of market capitalisation (Al-Shammari, 2008). At the commencement of this study, at the end of financial year 2010, KSE investor guide reported 217 companies listed on the exchange spread across eight sectors.

The major regulative bodies in Kuwait are the Ministry of Commerce and Industry and the KSE. The requirements of corporate reporting in Kuwait are influenced by International Accounting Standards (IAS) and their successor International Financial Reporting Standards (IFRS) as well as the listing requirements of the KSE (Naser et al., 2003). The reporting behaviour of KSE-listed firms is now subject to regulation stemming from three main (government-controlled) sources: Company Law No. 15 (1960) and its amendments, Stock Exchange Law 14/8/1983 and the Ministerial Resolution No. 18 of 1990.

### *Company Law No 15 (1960)*

Requires that companies to keep records of their financial operations, whilst the board of directors in each shareholding company must prepare a balance sheet and a profit and loss statement at the end of each financial year. These financial statements, which must be issued within three months of the end of the financial year, should provide a “true and fair” picture of the company’s financial position (Article 47). Based on this law, companies are required to provide shareholders with a copy of the balance sheet for the last financial year, as well as the profit and loss account and the reports of both the directors and the auditor. Law 15/1960 also requires that the financial statements audited by at least two registered auditors, and then made available to both the Ministry of Commerce and Industry and to the company’s shareholders (Al-Shammari, 2008).

### *Stock Exchange Law 14/8/1983*

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<sup>1</sup> The Gulf Cooperation Council (GCC) includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE

The particulars of 14/8/1983 Stock Exchange law and its amendments represent another important source of corporate reporting regulation in Kuwait. In 1997 the KSE Committee issued resolution No. 1, later replaced by resolution No. 3 of 1998, detailing the KSE listing requirements for Kuwaiti companies and those from other Arab countries which sought a listing on KSE. As Naser et al. (2003) note, this law requires companies seeking a listing on the KSE to also meet a number of disclosure-related requirements. In order to ensure that investors are aware of the information disclosed in companies' financial reporting and to enable them to use this information when making investment decisions.<sup>2</sup> The Stock Exchange law requires listed firms to provide the KSE with: an audited balance sheet and income statement; director's report; and auditor's report, submitted within three months of the end of the financial year. Over and above this provision, the board of directors of the KSE has the general right to require any extra information considered necessary before approving a listing.

#### *Ministerial Resolution No. 18 (1990) Adoption of IAS*

In April 1990 the Ministry of Trade and Industry enacted directive No.18, requesting all companies operating in Kuwait to comply with IAS from 1 January 1991; however the ministerial order noted that IAS should not conflict with local regulations (Naser et al., 2003; Al Mutawaa and Hewaidy, 2010). The law also formalised the requirement for listed firms to follow regulations issued by three governmental bodies, namely: the Ministry of Commerce and Industry (MCI), The Central Bank of Kuwait (CBK) and the KSE. The adoption of IAS was intended to improve corporate information disclosure and transparency and to enhance the comparability of financial statements both domestically and internationally (Al-Shammari, 2008 and Mutawaa and Hewaidy, 2010). The 1990 resolution requires all companies in Kuwait to apply IAS, requiring all the latter to be adopted by all companies without exception.

#### *The Professional Accounting Framework in Kuwait*

The Kuwait Accounting and Auditing Association (KAAA) was formed in 1973 and it is the only professional accounting body in the state. Accountants in Kuwait have made

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<sup>2</sup> The exchange requires that firms seeking a listing must provide information to the governing committee, these include: (i) memorandum and articles of association; (ii) audited financial statements and directors' reports since the date of establishment; (iii) details of the current board of directors and their percentage shareholdings in the company; (iv) information concerning subsidiaries and affiliates; (v) the total number of employees and names of executives; (vi) a list of shareholders' names and their stockholdings in the company; (vii) a description of the company's principal activities; and (viii) a list of executives who have the right to sign on behalf of the company, with signature specimens.

several efforts to achieve professional status, however they are far from reaching a 'desirable' level (Alanezi, 2006). Similar to many developing countries, the state of Kuwait has a weak and generally inactive professional accounting body (Alanezi, 2006); for example, there is no association in Kuwait that regulates the activities of the accounting profession. The KAAA is not active in improving the financial reporting environment in Kuwait given that the MCI is responsible for all professional regulations and the KAAA does not have any supervisory role in the profession (Alanezi, 2006). According to Al-Shammari (2008) therefore, the KAAA has no power to regulate the profession or enforce compliance; while its work is still limited to education regarding accounting standards and financial statement analysis it does nonetheless, it does now provide advice to the government as required.

### **3. Literature and Hypothesis Development**

#### *3.1 The purpose of companies' annual reports*

The idea that financial reporting should provide information to users to help them in making economic decisions was established more than half a century ago (Staubus, 2000). Chambers (1955) argued that the basis of such decision-making inevitably involves information from financial statements for practical reasons and suggested that the information in the financial statements should therefore be relevant to decision-makers' needs. A number of studies found that information provided in financial statement is useful for making investment decisions (Lee and Tweedie, 1975; Chenall and Juchau, 1977; Lee and Tweedie, 1981; Anderson, 1981; Chang et al, 1983; Chang and Most, 1985; Streuly, 1994; Naser and et al, 2003). In addition Naser and Abu Baker (1999) and Al-Kater and Naser (2003) reported that the main purpose of corporate disclosure is to provide information to investors and creditors to assist them in making investment decisions. Our expectation, based on previous literature, is for no significant difference among preparer and user regarding the purpose of information contained the annual report.

H<sub>1</sub>. There is no significant difference among user and preparer groups in terms of the perceived purpose of Kuwaiti non-financial listed companies' annual reports.

#### *3.2 The importance of different sections of companies' annual reports*

Income statement and balance sheet were ranked as the most important sections of annual report for financial decision-making by several previous studies of both developed (e.g. Anderson, 1981; Courtis, 1982; Chang and Most, 1981; and Epstein and Pava, 1993) and developing countries (e.g. Abu-Nassar and Rutherford, 1996; Naser and Idris, 1997;

Hossain, 2000; Rahman, 2001; Nasser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; and Zoysa and Rudkin, 2010). However Anderson and Epstein's (1995) study of Australia, which found that the profit and loss account and balance sheet were ranked by individual investors in second and fourth position respectively, and Bartlett and Chandler (1997), who found that the profit and loss account and balance sheet were ranked by individual investors in UK in only third and ninth position respectively. In view of mixed evidence from prior studies, we have no specific expectation regarding the difference between opinions of preparers and users about the importance of each sections of annual report.

H<sub>2</sub>. There is no significant difference among user and preparer groups in terms of the importance that they attach to different sections of Kuwaiti non-financial listed companies' annual reports for decision-making.

### *3.3 The potential importance of quantity and quality attributes of the financial information disclosed in companies' annual reports*

The IASC argued that the quality of accounting information could be enhanced by focusing on the qualitative characteristics of financial statements from a decision-usefulness perspective. In this context, the IASC highlighted four principal qualitative characteristics which make the accounting information presented in financial statements useful to the users (IASC, 1989, paragraphs 24). These characteristics are understandability, relevance, reliability and comparability. Ijiri et al (1966) argues that information contained in the annual report should be presented in an 'obvious' and 'understandable' form in order to help users of the financial report to make informed decisions. In regard to the relevance of accounting information, it is argued that "Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations" (IASC 1989, para.26). To be useful, information must also be reliable (IASC, 1989). Information has the quality of reliability when it is free from material error and bias and can be depended upon by users (IASC 1989, para. 31). The comparability notion relates to the ease of comparing financial information disclosed in corporate annual reports with similar information in prior years in order to identify trends in financial position and performance (IASC 1989, para.39). A number of studies investigated the perceptions of users regarding the qualitative characteristics of the information disclosed in annual reports in developing countries such as Naser et al. (2003) in Kuwait; Naser and Nuseibeh (2003) in Saudi Arabia; Chen and Hsu (2005) in Hong Kong; Bribesh (2006) and Kribat (2009) in Libya. All of these found

that users perceived reliability to be the most important quality of information disclosed in corporate annual reports. In contrast, however, an earlier Jordanian study by Abu-Nassar and Rutherford (1996) found that consistency was ranked by user groups as the most important quality aspect, with reliability of the information ranked only in fourth. In view of the mixed evidence from prior literature, we have no specific expectation regarding the difference between preparers and users about the importance of the qualitative characteristics of financial statements.

H<sub>3</sub>. There is no significant difference among user and preparer groups in terms of the perceived importance they attach to the criteria that might affect the quantity and quality of financial information disclosed in Kuwaiti non-financial listed companies' annual reports.

### *3.4 The significance of problems restricting the use of companies' annual reports*

A number of problems have been suggested as restricting the use of corporate annual reports by different group of users in developing countries (Zoysa and Rudkin, 2010). The potential problems in using annual reports have been investigated by previous studies (e.g. Mirshekary and Saudagaran, 2005; and Zoysa and Rudkin, 2010). Our expectation is that there is no significant difference between opinion of preparers and users about the potential problems restricting the use of Kuwaiti companies' annual reports.

H<sub>4</sub>. There is no significant difference among preparers and user groups in terms of the perceived significance of problems with usage of Kuwaiti non-financial listed companies' annual reports.

### *3.5 Factors that might improve the usefulness of companies' annual reports*

Previous literature suggested criteria for potential enhancement to the annual reports. These elements examined by Al-Mubarak, 1997 and Almahmoud, 2000 in Saudi Arabia where the environment is similar to the Kuwait and found that company's annual reports should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance. Therefore it is considered to be important to investigate the perceptions of preparers and users about this issue in Kuwait. Our expectation is that there is no significant difference between opinion of preparers and users about the potential factors that might improve the usefulness of annual report.

H<sub>5</sub>. There is no significant difference among the groups of users and preparer in terms of perceptions about specific factors that might improve the usefulness of Kuwaiti non-financial listed companies' annual reports.



## 4. Methods

### 4.1 Sample selection

The sample of preparers was based on the population of Kuwaiti non-financial company listed on the KSE. Financial companies were excluded from the sample. This approach is consistent with a number of previous studies which excluded financial companies based on their differing requirements and consequent comparability problems (e.g. Choi, 1973; Cooke, 1989; Wallace et al., 1994; Owusu-Ansah, 1998; Abd-Elsalam and Weetman, 2003). Listed companies were selected on the basis of their economic significance. The questionnaires were distributed to financial managers of the sample as preparers. The choice of target groups was influenced by the literature (e.g. Abu-Nassar, 1993, and Kribat, 2009), taking into account the Kuwaiti context and the need to identify those responsible for the preparation of annual reports in Kuwait. These target groups were chosen based on their likely knowledge and understanding of financial disclosure processes.

In order to evaluate the users' views regarding usefulness of financial reporting, financial analysts<sup>3</sup> were chosen to participate in this study as users. Once again the selection of target groups was based literature, the Kuwaiti environment and the decision-usefulness foundation of this research. In addition, the target groups were expected to use the annual reports on a regular basis and hence to exercise a certain degree of knowledge and experience to complete the survey.

### 4.2 Questionnaire design

The first stage in designing the questionnaire was based on an extensive review of related surveys conducted elsewhere, especially in developing countries. The following studies were particularly influential in this regard: (e.g. Lee and Tweedie, 1975; Anderson, 1981; Curtis, 1982; Anderson and Epstein, 1995; Epstein and Pava, 1993; Abu-Nassar and Rutherford, 1995; Almahmoud, 2000; Nasser et al., 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran, 2005; Yafian and Mirshekary, 2005; Kribat, 2009; Chatterjee et al., 2010; Alzarouni et al. 2011). The researchers made every effort to ensure that key issues relating to the usefulness of corporate annual reports in evaluating disclosure practices were included in the questionnaire and the questions included reflected research objectives. The questionnaire generally used closed-form

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<sup>3</sup> Financial analysts are chosen from brokerage firms or who usually employed for commercial banks, investment companies and investment consulting centres. The researcher approached these organisations to collect as much as possible of point of view of these financial analysts.

questions and the majority of the questions were constructed in the form of statements followed by five-point Likert scale response options.

Two an early draft of both the English and Arabic<sup>4</sup> versions was piloted; the purpose of this approach is highlighted by Sekaran (1992) and Zikmund (2000), when they argued that conducting a pilot test allows the researcher to check whether the questions are seen as unambiguous by respondents, to examine questionnaires' continuity and flows, and experiment with question sequencing and patterning. The pilot questionnaire (English language version) was reviewed by two staff in the School of Business at the University of Dundee, and Academic staff at the Financial Reporting and Business Communication Conference held in July 2012 at the University of Bristol, UK. As a result, several comments and feedback about the questionnaires' reliability were collected. Based on the feedback, several modifications were made to the wording of certain questions, and some were deleted or combined to reduce the length of the questionnaire.

As two versions of the questionnaire were needed, the researcher had to focus on issues related to translation. In this regard Oppenheim (1992) argued that the translation of questionnaires from one language to another is risky. However, every effort was taken to ensure careful translation of the questionnaire into Arabic and avoidance of any misunderstanding of the questions. The Arabic version of the questionnaire was piloted amongst a number of native Arabic speaker academic staff in the Accounting Department at UK universities and at the Public Authority for Applied Education and Training in Kuwait. These pilot respondents were asked to provide feedback on the content, validity, reliability and translation of the questionnaire. The majority of this feedback was related to Arabic translation, and some comments were made about the content of the questionnaire. Improvements were therefore made to take this feedback into account. The validity of the questionnaire used in this study was examined by asking two preparers and two users to complete the questionnaire, with the researcher noting comments and points of difficulty and amending the document accordingly once both the English and Arabic versions of the questionnaire were ready for distribution.

## **5. Results**

### *5.1 Response rates and tests for reliability and Validity*

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<sup>4</sup> Arabic is the official language in Kuwait. However, English the language is widely used and understood in business. In addition, some respondents were born overseas and they used English as their first language.

In total 300 questionnaires were surveyed, 145 were returned. Eight of these were excluded because it proved to be unusable due to incompleteness (six users and two preparers), reducing the overall response to 45%. Table 1 details the number of questionnaires distributed, useable responses and response rates for each of the groups surveyed.

**Table 1: Users and Preparers Groups and Response Rates**

Subject Groups	Number Survey	Useable Number of Responses	Response Rate
Users	170	75	44%
Preparers	130	63	48%
Total and overall response rate	300	137	45%

Note: This table reports the number of surveyed and useable responses, plus the response rates across respondent groups.

The step come after collected responses is analysing it, however, before running the statistical analysis, reliability and validity tests were performed. Reliability is considered that the internal consistency method which based on “Cronbach’s Alpha Test” is statistically the best way to assess the reliability of questionnaire responses (Field, 2009). The Coefficient alpha test was carried out on both the preparers’ and users’ questionnaire. The result is presented in Table 2.

**Table 2: Cronbach’s Alpha Coefficient for both the users’ and preparers’ questionnaire**

Subject groups	No. of Responses	Cronbach’s Alpha
Users	75	0.96
Preparers	63	0.95

Note: This table depicts the reliability results for the responses of both users and preparers.

The results therefore suggest a high level of internal consistency in the responses of both groups.

In regard to validity, Field (2009) noted that research tool should be pilot tested before conducting empirical research to assess its validity. The validity of the questionnaires in this study were obtained from different professionals and experienced researchers who participated in the pilot study. After describing response rates and tests for reliability and validity, respondents’ views are described under five major headings: the purpose of companies’ annual reports; the importance of different sections of companies’ annul reports; the potential importance of quantity and quality attributes of the financial information disclosed in companies’ annual reports; The significance of problems

restricting the use of companies' annual reports; and Factors that might improve the usefulness of companies' annual reports.

### *5.2 The purpose of companies' annual reports*

Company annual reports are used by several different parties, for a range of purposes including investing and lending decision-making (IASC, 1989). In order to investigate preparers' and users' views in this context in Kuwait, ten possible purposes were provided to the respondents and they were asked to indicate the importance that they attach to each one<sup>5</sup> and a summary of the participants' responses is presented in Table 3.

Both groups users and preparers attached the highest importance to the proposal that the purpose of corporate annual reports is "to provide information to investors to help them making investment decisions", (row 1) with an overall mean score of 4.61 and 4.42 respectively, however, users are, not surprisingly, more interested in investment decisions making. Both groups have similar agreement regarding the suggested statements that the purpose of annual report is to provide information to creditors regarding company and to help discharge accountability (row 8 and 10). However, There is significant difference between users and preparers in the rest of suggested statement (row 2-7 and 9) where preparers group ranked all of these suggested statements (row 2-7 and 9) than users did. The relatively low rank given by users to those statements might be attributable to their limited accounting background and experience about the uses of corporate annual reports. These results imply that preparers saw annual reports as being of more importance to external parties than for internal management.

This evidence is consistent with the evidence of Naser and Abu Baker (1999) in Jordan and Al-Kater and Naser (2003) in Qatar who found that the main purpose of corporate disclosure is to provide information to investors and creditors to assist them in making investment decisions; there is thus a clear pattern in the findings across the Middle East in this regard . Other purposes, such as to help managers in running their businesses and helping to discharge accountability (row 9 and 10) are seen as being of less importance to both users and preparers group, in this study generating the lowest means of 2.97, 4.08 and 4.13, 4.18 respectively.

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<sup>5</sup> Explains the possible purposes were selected primarily on the basis of a review of previous literature (e.g. Al-Mubarak, 1997 and Kribat, 2009).



**Table 3: Views on importance of information provided in Kuwaiti companies' annual reports in terms of alternative goals**

Question	<u>No of responses</u>		<u>Mean (std. dev)</u>		Difference
	Users	Preparers	Users	Preparers	
To what extent do you agree the following suggested statements that explaining the purpose of companies' annual reports ?					
1. Providing information to investors to help them make investment decisions	75	61	4.61 (0.73)	4.42 (1.10)	0.74
2. Providing information to investors to assist them in monitoring their investments	75	61	3.81 (1.18)	4.31 (1.08)	0.00**
3. To help investors make comparisons across companies	75	61	3.44 (1.10)	4.26 (1.03)	0.00**
4. To help investors to evaluate company performance over time	74	61	3.63 (1.12)	4.36 (0.89)	0.00**
5. To help investors to predict dividends	75	61	3.93 (1.08)	4.31 (0.99)	0.01*
6. To provide information to creditors to assist them with future lending decisions	74	61	3.16 (1.13)	4.37 (0.79)	0.00**
7. To help creditors to assist them in monitoring their loans	74	61	3.45 (1.26)	4.21 (0.95)	0.00**
8. To provide information to creditors regarding company	75	61	4.13 (0.99)	4.21 (0.91)	0.68
9. To help managers to assist them in running their business	75	61	2.97 (1.31)	4.08 (0.97)	0.00**
10. To help discharge accountability	75	61	4.13 (1.09)	4.18 (0.99)	0.93

Note: This table provides the mean and standard deviation (std. dev) for all respondents regarding questions about the purposes of annual reports. Responses are based on a Likert Scale where 1 = strongly disagree; and 5 = strongly agree. The table also provides p-value from a Wilcoxon-Mann-Whitney test. A \*/\*\* indicates significance at the 5% / 1% level respectively on a two-tailed basis

### *5.3. The importance of each component of annual reports*

Given the importance attributed to corporate annual reports, the users were asked to rate the importance of eight sections of annual report. Also to understand whether preparers understand users' needs they were asked to indicate their opinions on importance of each component of annual report to the users. The responses to this question are presented in Table 4. The results provided in Table 4 indicate that preparers were believed that auditor report is the most important section of annual reports to the users with mean of 4.7 (row 3) followed by income statement with mean of 4.65 (row 5). However in fact the opinions of users were contrary to expectations of preparers where users more interested in income statement as the most important section with mean of 4.69 (row 5) followed by balance sheet with mean of 4.68 than auditor report where was ranked in third position with mean of 4.51 (row 3). The dominance of the income statement and balance sheet is not surprising since these two sections provide the tangible information likely to be needed for users regarding their investment decision.

The chairman's message was ranked by both groups of preparers and users as the least important section of the corporate annual report with a mean of 3.68 and 3.64 respectively, suggesting a degree of cynicism in Kuwait about its relevance.

There were only significant difference at 5% level associated with Directors' report and auditor report between preparers and users. This evidence suggests that preparers have markedly different views to users; in particular, the latter assigned lower importance to users of report than did preparers. Therefore, this evidence supports the rejection of null hypothesis H2.

**Table 4: Views on the importance of each component of Kuwaiti companies' annual reports.**

Question	<u>No of responses</u>		<u>Mean (std. dev)</u>		Difference
	Users	Preparers	Users	Preparers	
How important is each of the following components of annual reports?					
1. Chairman’s message	75	60	3.64 (1.16)	3.68 (1.14)	0.79
2. Directors’ report	75	62	3.80 (1.09)	4.14 (0.88)	0.05*
3. Auditors’ report	74	62	4.51 (0.62)	4.70 (0.52)	0.05*
4. Balance sheet	75	62	4.68 (0.59)	4.61 (0.63)	0.50
5. Income statement	75	61	4.69 (0.54)	4.65 (0.68)	1.00
6. Statement of changes in equity	75	61	4.38 (0.91)	4.39 (0.68)	0.47
7. Cash flow statement	75	62	4.44 (0.88)	4.56 (0.69)	0.65
8. Notes to the financial statement	75	61	4.56 (0.82)	4.55 (0.64)	0.40

Note: This table provides the mean and standard deviation (std. dev) for all respondents regarding questions about the importance of each component of annual reports. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides p-value from a Wilcoxon-Mann-Whitney test. A\* indicates significance at the 5% level on a two-tailed basis.



#### *5.4 The potential importance of quantity and quality attributes of the financial information disclosed in companies' annual reports*

The views of participants concerning the quantity and quality of the financial information provided in Kuwaiti companies' annual reports. In this regard a number of characteristics of financial reporting<sup>6</sup> were provided to the respondents and they were asked to indicate their opinions regarding these characteristics. Opinions on these characteristics are, therefore, reported in Table 5. Users' views regarding the importance of all characteristics are both stronger and significantly different from those of preparers, in this regard this finding suggests that users value information that is understandable, relevant, reliable and comparable with the amount of data being less of a direct concern.

Comparability was perceived as the least important of the four quality factors by users. This result may be explained by the fact that Kuwaiti companies are required to comply with international financial reporting standards, which means that comparability can be taken for granted to a large extent.

In regard to the reliability of the information, the findings of this analysis are consistent with evidence in previous developing country studies such as those of Naser et al. (2003) in Kuwait; Naser and Nuseibeh (2003) in Saudi Arabia; Chen and Hsu (2005) in Hong Kong; Bribesh (2006) and Kribat (2009) in Libya. All of these found that users perceived reliability to be the most important quality of information disclosed in corporate annual reports. In contrast, however, an earlier Jordanian study by Abu-Nassar and Rutherford (1996) found that consistency was ranked by user groups as the most important quality aspect, with reliability of the information ranked only in fourth<sup>7</sup>. Preparers do not think that reliability is the most importance characteristic where the understandability was in the top of their priority. Both groups agreed that quantity of information was seen as less important than quality. Therefore, this evidence supports the rejection of null hypothesis H3.

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<sup>6</sup> The characteristics included in this section were drawn from the IASC Conceptual Framework for the Preparation and Presentation of Financial Statements issued in 1989. The use of this framework rather than the 2010 framework was explained in section 2 as reflecting the Kuwaiti accounting profession limited ability to keep up with developments; accountants in Kuwait are generally not familiar with new framework adopted in 2010 and the 1989 document is the one most relevant in practice.

<sup>7</sup> It should be noted that these earlier studies include all industrial sectors, while the present one focuses exclusively on non-financial companies.

**Table 5: Views on qualitative and quantitative of disclosure information in corporate annual reporting**

Question	<u>No of responses</u>		<u>Mean (std. dev)</u>		Difference
	Users	Preparers	Users	Preparers	
To what extent the following attributes are important to you?					
1. Understandability	74	61	4.66 (0.50)	4.13 (0.93)	0.00**
2. Relevance	74	61	4.56 (0.55)	4.03 (0.99)	0.00**
3. Reliability	74	61	4.70 (0.59)	3.75 (0.97)	0.00**
4. Comparability	74	61	4.47 (0.76)	3.91 (0.93)	0.00**
5. Quantity of information	74	61	4.33 (0.76)	3.67 (1.01)	0.00**

Note: This table provides the mean and standard deviation (std. dev) for all respondents regarding questions about the importance of qualitative and quantitative of disclosure information in annual reports. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides p-value from a Wilcoxon-Mann-Whitney test. A \*/\*\* indicates significance at the 5% / 1% level respectively on a two-tailed basis.

### *5.5 The significance of problems restricting the use of companies' annual reports*

A number of problems have been suggested as restricting the use of corporate annual reports by different group of users in developing countries (Zoysa and Rudkin, 2010). To investigate the problems faced by users of Kuwaiti annual reports, a list of possible problems that might be met when using the annual reports<sup>8</sup> was provided to the respondents and they were asked to indicate degree of importance they attached to each of these problems. The possible problems investigated were those suggested in the extant literature as well as deficiencies relating to the characteristics of financial reports as set out in the 1989 IASC Conceptual Framework; these are: understandability, relevance, reliability, and comparability. In this context the respondents were asked to indicate their opinions about particular problems that may influence the use of Kuwaiti companies' annual reports. Respondents' views are shown in Table 6. Both groups of respondents appear to believe that all potential problems restrict the use of companies' annual reports. However users' views regarding to these problems are both stronger and significantly different from those of preparers, with users agreeing that, the delay in publishing annual reports is the most important (mean = 4.44), followed by the lack of reliability of the information and the lack of relevance of the information with mean of (4.38 and 4.34) respectively. In contrast, users think that compliance with IFRS is the less significant problem facing them when using the annual reports of Kuwaiti non-financial companies'. Preparers agreed that difficulty in obtaining annual reports is less significant important. The results indicate statistically significant differences among users and preparers regarding their views about the difficulty in obtaining annual reports, lack of relevance of the information, and Lack of reliability of the information. However there is no statistically significant difference in users' opinions about the remaining four problems. Therefore, it can be concluded that both groups believed that delays in publishing annual reports is areas of concern. Therefore, this evidence supports the rejection of null hypothesis H4.

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<sup>8</sup> These possible problems were selected based on previous literature (e.g. Mirshekary and Saudagaran, 2005; and Zoysa and Rudkin, 2010).

**Table 6: Views on the problems that restrict the use of corporate annual reports**

Question	<u>No of responses</u>		<u>Mean (std. dev)</u>		Difference
	Users	Preparers	Users	Preparers	
To what extent you think that the following problems are important in reducing the use of corporate annual reports?					
1. Difficulty in obtaining annual reports	72	61	4.31 (0.78)	3.85 (1.22)	0.03*
2. Delay in publishing annual reports	72	61	4.44 (0.68)	4.19 (0.99)	0.22
3. Difficulty in understanding the information	72	61	4.23 (0.66)	4.01 (1.13)	0.69
4. Lack of relevance of the information	72	60	4.34 (0.75)	4.01 (0.96)	0.05*
5. Lack of reliability of the information	71	61	4.38 (0.72)	4.03 (0.99)	0.05*
6. Difficulty of comparability of the information	72	61	4.22 (0.79)	3.98 (0.97)	0.19
7. Poor compliance with International Financial Reporting Standards	72	61	4.18 (0.84)	4.04 (1.11)	0.90

Note: This table provides the mean and standard deviation (std. dev) for all respondents regarding questions about the importance of possible problems that restrict the use of corporate annual reports. Responses are based on a Likert Scale where 1 = not important at all; and 5 = very important. The table also provides p-value from a Wilcoxon-Mann-Whitney test. A \* indicates significance at the 5% level respectively on a two-tailed basis.

### *5.6 Factors that might improve the usefulness of companies' annual reports*

To elicit opinions regarding factors that might improve the usefulness of Kuwaiti companies' annual reports for decision-making. The respondents were asked to evaluate five statements. These statements were selected based on careful examination of previous literature (e.g. Al-Mubarak, 1997 and Almahmoud, 2000). Responses are summarised in Table 7.

Both groups are strongly agree that each of the issues raised is important, with the overall means all greater than 4. Users' views regarding most of statements presented in the question are both stronger and different from those of preparers, with users agreeing that their needs to be stronger regulation to prevent an insider from benefiting from financial information before other investors in the market as most important (mean = 4.61). This result can be likely explained on the grounds that users' main concern is about getting access to trustworthy the financial information quickly which is reflected in the findings presented in Table 6 (where users ranked the delay in publishing annual reports and the lack of reliability of the information as most significant problems they face). Preparers strongly agreed that the inclusion of financial ratios (such as profitability, gearing ratios and earning per share) measuring company performance (with overall mean of 4.66) would aid usefulness. This finding is consistent with the result reported in Table 3 where preparers agreed that the provision of information to investors to help them to make investment decisions was the most important purpose of financial reports. The respondents also expressed strong support for regulation preventing insiders getting early access to information, with an overall mean score of 4.51.

In regard to significant differences amongst groups, the results show that users' views are both strongly and statistically significant than those of preparers in relation to the proposal that the time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage.

**Table 7: Views on possible factors for improvement the usefulness of companies' annual reports for decision making**

Question	<u>No of responses</u>		<u>Mean (std. dev)</u>		Difference
	Users	Preparers	Users	Preparers	
To what extent do you agree with each of the following suggested statements?					
1. The annual reports of a company should include some financial ratios (e. g. Profitability, gearing ratios and earning per share ...) to help measure the company's performance	73	60	4.52 (0.80)	4.66 (0.60)	0.37
2. The annual report of a company should include information about its shares (e. g. book value, market value, and volume of shares traded during the year)	73	60	4.43 (0.78)	4.43 (0.85)	0.92
3. The length of time taken to publish the annual report makes the financial information out of date	73	60	4.26 (0.94)	4.23 (0.87)	0.68
4. There needs to be stronger regulation to prevent an insider from benefiting from financial information before other investors in the market	73	60	4.61 (0.67)	4.51 (0.67)	0.22
5. The time lag between the authorisation of annual financial statements and their publication is too long and may result in information leakage	73	60	4.53 (0.70)	4.21 (0.88)	0.02*

Note: This table provides the mean and standard deviation (std. dev) for all respondents regarding questions about the suggested factors for improvement the usefulness of companies' annual reports for decision making. Responses are based on a Likert Scale where 1 = strongly disagree; and 5 = strongly agree. The table also provides p-value from a Wilcoxon-Mann-Whitney test. A \*/\*\* indicates significance at the 5% / 1% level respectively on a two-tailed basis.

## **6. Conclusion**

This study reports the findings from a questionnaire survey of Kuwaiti users and preparers regarding the usefulness of companies' annual reports for decision making. This survey has shown that the perceptions of users and preparers groups were comparable in some, but not all, cases. In regard to the purpose of annual reports, both preparers and users have similar views regarding the main purpose of annual reports as they both viewed that providing information to assist investors and creditors in making decisions about the company is one of the main purpose of annual report. Also, both groups ranked the income statement as very important part of the annual report, with the delay in publishing annual reports being seen by both as the most significant problem in Kuwait. However, the viewpoints of both users and preparers differed regarding the factors that might improve the usefulness of Kuwaiti companies' annual reports for decision-making purposes; whereas preparers believed that annual reports should most usefully include calculations of financial ratios, users viewed the need for stronger regulation to prevent insider access to financial information as being more important. However, at a more general level it was revealed that users ranked each of seven purported impediments to usage of annual reports more highly than did preparers. Either the latter have an overly optimistic view about the ease of using the information, or instead, Kuwaiti users could be encouraged to seek ways round the (perceived) difficulties. In any case, regulators should take account of the mis-match in responses.

In common with all research methods, the survey method used in this research has several limitations that need to be acknowledged and must be taken in account when evaluating the results. these potential limitations are: primarily relating to low response rate, response bias and the possibility of questions being misunderstood, and the risk that respondents do not answer with complete honesty. A additional limitation of the study is that as the analysis provided empirical evidence about the nature of corporate disclosure, but in a single emerging market and, the results cannot be generalised beyond the Kuwait. It would be interesting to extent the variation in the views of users and preparers a cross-national study between Kuwait and other developing countries both within and outside the Arabic world to allow for more generalised conclusion about financial reporting in different environments.

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